

December 15, 1999

The Honorable Tony Knowles, Governor  
Members of the Alaska State Legislature  
Teachers' Retirement Board  
Alaska State Pension Investment Board  
Employers and Members of the System

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Teachers' Retirement System (TRS) (System) for the fiscal year ended June 30, 1999. This report is intended to provide comprehensive information on the financial operations of the System for the year. Responsibility for the accuracy of the data, and the completeness and fairness of the presentation rests with the management of the System.

The 1999 CAFR is divided into five sections:

- an **Introductory** Section, which contains this transmittal letter, the administrative organization of the System, and a list of the members serving on the Teachers' Retirement Board;
- a **Financial** Section, which contains the Independent Auditors' Report, Combining Financial Statements, Notes to Combining Financial Statements, Required Supplementary Schedules, and Notes to Required Supplementary Schedules;
- an **Investment** Section, which contains a message from the Chair of the Alaska State Pension Investment Board (ASPIB), a list of the members serving on the ASPIB, a report on investment activity, investment results, and various investment schedules;
- an **Actuarial** Section, which contains the Actuarial Certification letter and the results of the most current annual actuarial valuation; and
- a **Statistical** Section, which includes graphs and tables of significant data.

The Alaska TRS was established in 1955 to provide pension and postemployment healthcare benefits for teachers and other eligible participants. Normal service, survivor, and disability benefits are available to all members who attain the age and service requirements of the Systems.

	TRS		
	FY99	FY98	FY97
Net Assets (millions)	\$4,204.0	3,915.2	3,492.1
Participating Employers	62	62	62

## **Reporting Entity**

The System is considered a component unit of the State of Alaska for financial reporting purposes. Because of the closeness of the System's relationship to the State, it is included in the State of Alaska CAFR as a blended component unit.

The Commissioner of the Department of Administration, appointed by the Governor, is responsible for administering the System. In order to meet the statutory requirements of administering the System, the Commissioner appoints the Director of the Division of Retirement and Benefits. The Director is responsible for the daily operations of the System.

The Teachers' Retirement Board prescribes policies and regulations, hears appeals, and approves employers' contribution rates prepared by the System's independent actuary.

The Alaska State Pension Investment Board (ASPIB) has statutory oversight of the System's investments and the authority to invest the System's monies. Actual investing is performed by external investment firms and investment officers of the Department of Revenue, Treasury Division listed in the Investment Section on pages 40 and 41. The Treasury Division is responsible for carrying out investment policies established by ASPIB.

## **Major Initiatives**

The System continues to make progress on completing several on-going projects. Most of these efforts focused on improvements in technology, improving methods for members to obtain information about the System and their benefits, and continued compliance with accounting requirements of the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB) as applicable in the circumstances.

This CAFR was prepared to conform with the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board. Transactions of the System are reported on the accrual basis of accounting. Sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules.

Changes to the current computer systems to improve operations and to address Year 2000 readiness are on-going.

Preparations were made to facilitate the transition to a new health claims payor, Aetna U.S. Care, effective July 1, 1999. The System is self-insured for all postemployment healthcare benefits and contracts with a third party for payment of claims. The advantages to self-insuring include allowing greater flexibility in developing health care options. The System's web site allows members to enroll during an open enrollment period, to print out claims forms and have access to information on benefits, wellness resources, hospitals, pharmacies, and providers.

This web site also includes Projection Estimators that will estimate a member's monthly benefit at retirement. Members can estimate their TRS benefit based on various factors pertinent to their membership.

During FY99, the System granted a discretionary cost-of-living increase, along with the statutorily required automatic cost-of-living increase.

An updated cost allocation plan was implemented beginning in FY99 to comply with the Office of Management and Budget (OMB) Circular A-87, which required allocating operating costs among pension trust funds using an updated allocation base.

The Retirement Incentive Program (RIP) continues to impact the Division by increasing the number of members retiring. The Division expected to retire almost as many people for the month of July 1999 than during the entire calendar year 1993. Window periods for the current RIP ended June 30, 1999.

### Additions to Plan Net Assets

The revenues required to finance retirement benefits are accumulated through a combination of investment income and employer and employee contributions.

	Revenues			
	Millions		(Dec)	
	FY99	FY98	Amt	%
Employee Contributions	\$ 48.3	50.1	(1.8)	(3.6)%
Employer Contributions	66.3	77.8	(11.5)	(14.8)%
Net Investment Income	<u>397.5</u>	<u>497.0</u>	<u>(99.5)</u>	(20.0)%
<b>Total</b>	<b><u>\$ 512.1</u></b>	<b><u>624.9</u></b>	<b><u>(112.8)</u></b>	<b><u>(18.1)%</u></b>

The decrease in employer contributions was primarily due to decreased participation in the Retirement Incentive Program. The rate of return on investments decreased from 14.83% to 10.67%, accounting for a major part of the decrease in net investment income.

### Deductions From Plan Net Assets

The primary expense of the System is the payment of pension benefits, the principal reason the System exists. These benefit payments, together with postemployment healthcare premiums, lump sum refunds made to former members, and the cost of administering the System comprise the costs of operation.

	Expenses			
	Millions		Inc/(Dec)	
	FY99	FY98	Amt	%
Pension Benefits	\$ 187.1	169.8	17.3	10.2%
Healthcare Benefits	31.0	26.1	4.9	18.8%
Refunds	3.5	3.5	-	-
Administrative Expenses	<u>1.7</u>	<u>2.2</u>	<u>(0.5)</u>	(22.7%)
<b>Total</b>	<b><u>\$ 223.3</u></b>	<b><u>201.6</u></b>	<b><u>21.7</u></b>	<b><u>10.8%</u></b>

The majority of the increase in pension benefits was the result of a continuing increase in the number of retirees. Also, the System granted a discretionary cost-of-living (post retirement pension adjustment (PRPA)) increase at the beginning of the fiscal year. The increase in health care benefits is due to the increase in retirees and rising costs of providing such benefits. The decrease in administrative expenses was largely attributable to implementation of the new cost allocation plan.

## Investments

The investment of pension funds is a long-term undertaking. On an annual basis, ASPIB reviews and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/reward level given the System's constraints and objectives. During FY99, ASPIB adopted an asset allocation that includes 40% in Domestic Equities, 17% in International Equities, 32% in Domestic Fixed Income, 6% in International Fixed Income, and 5% in Real Estate.

During the year, ASPIB completed its funding on international fixed income. ASPIB also continued its diversification in investments through added alternative investments as a subclass of our domestic equity asset class during the year. ASPIB also adopted a strategy to fund real estate and alternative investments over a period of years. This will ensure the funds are invested over a complete market cycle. At the close of the year, ASPIB has 4% in real estate investments and less than 1% in alternative investments.

For FY99, TRS investments generated a 10.67% rate of return. The TRS annualized rate of return was 14.50% over the last three years and 14.77% over the last five years.

## Funding

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to participants. The contribution requirements are determined as a percentage of payroll, and reflect the cost of benefits accruing in FY99 and a rolling amortization of the unfunded accrued liability. The amortization period is set by the Board. Contribution levels are recommended by the Actuary and adopted by the Board each year. Over time, the contribution rate is expected to remain constant as a percentage of payroll. The ratio of assets to liabilities increased from 94.0% to 97.7% during the year, primarily due to continued favorable investment experience. Over the years, progress has been made toward achieving the funding objectives of the System.

There were no significant changes in the actuarial assumptions or actuarial methods used in the determination of System liabilities this year. The assumptions and methods, when applied in combination, fairly represent past and anticipated future experience of the System.

Valuation Year	Millions	
	1998	1997
Valuation Assets	\$3,446.1	3,120.0
Accrued Liabilities	3,528.8	3,320.0
Funding ratio	97.7%	94.0%

## Professional Services

Professional consultants are retained to perform professional services that are essential to the effective and efficient operation of the System. Opinions of the independent certified public accountant and the consulting actuary are included in this report. A list of consultants is provided in the Introductory Section with the exception of investment professional consultants, who are listed in the Investment Section of this report.

## Acknowledgments

The preparation of this report is made possible by the dedicated service of the staff of the System. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means of determining responsible stewardship of the funds of the system.

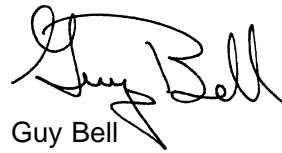
The report is being mailed to all employer members of the System. They form the link between the System and the membership. Their cooperation contributes significantly to the success of the System. We hope the employers and their employees find this report informative.

We would like to take this opportunity to express our gratitude to the Teachers' Retirement Board, the Alaska State Pension Investment Board, the staff, the advisors, and to the many people who have worked so diligently to assure the successful operation of the System.

Respectfully submitted,



Robert Poe, Jr.  
Commissioner



Guy Bell  
Director

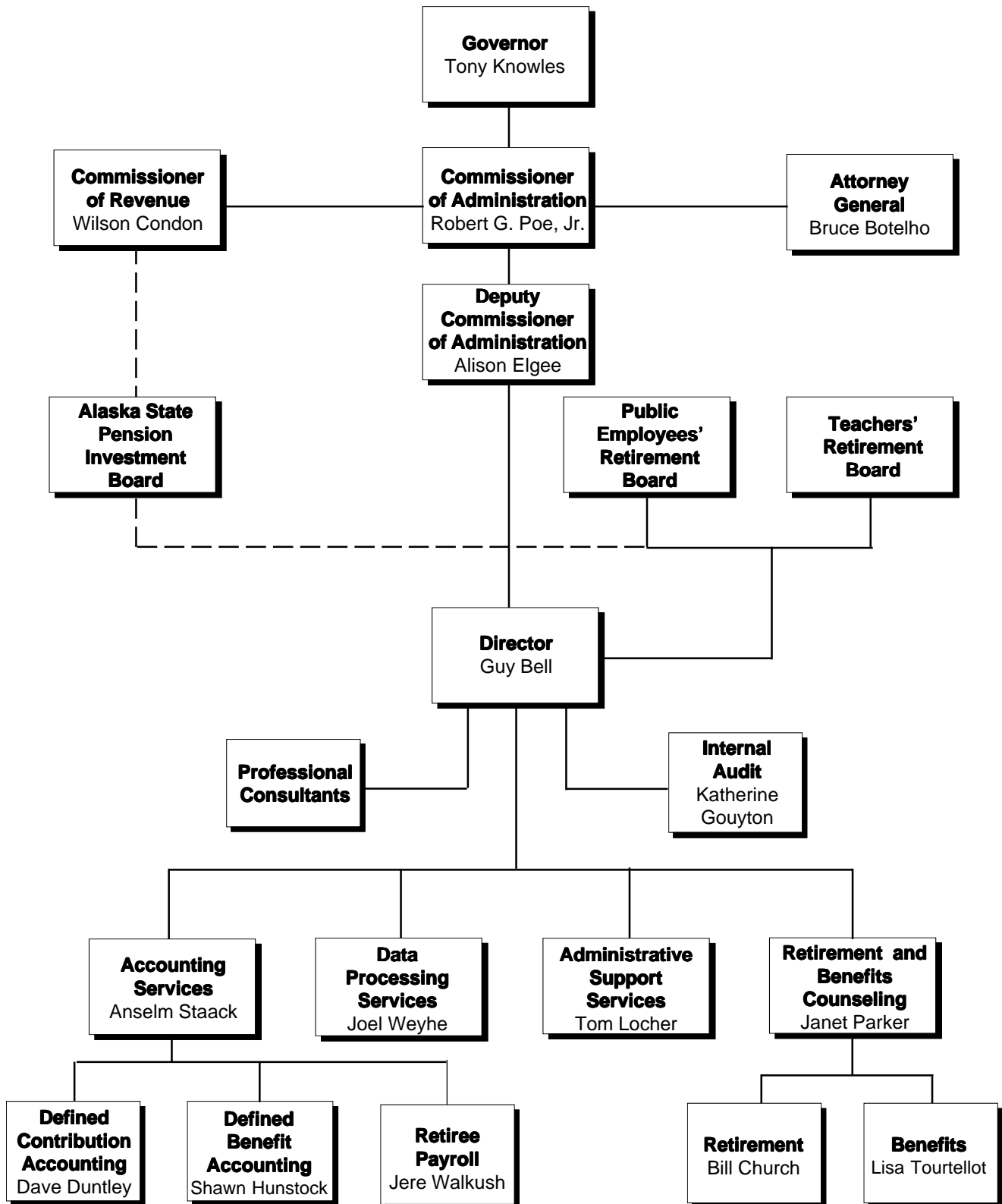


Janet L. Parker  
Deputy Director



Anselm Staack, CPA, JD  
Chief Financial Officer

## ORGANIZATION CHART



## Section Responsibilities

The **Retirement Section** is responsible for providing comprehensive retirement counseling to the participating members and employers in the plan. The section appoints members to retirement benefits and maintains benefit payment information.

The **Benefits Section** is responsible for the administration of group health, disability, and life insurance. This section provides benefits counseling and plan change information to the membership.

The **Defined Benefit Accounting Section** is responsible for maintaining the employee and employer records and accounts in each of the defined benefit plans administered by the Division of Retirement and Benefits, producing financial statements and reports, and assuring compliance with the Internal Revenue Service requirements for defined benefit plans.

The **Defined Contribution Accounting Section** is responsible for accounting, plan operations, and financial activities related to the defined contribution plan systems administered by the Division.

The **Data Processing Services Section** supports the information systems the Systems use. Responsibilities include planning, development, data base design, programming, and operational support of the data processing systems, including the Local Area Network.

The **Administrative Support Services Section** is responsible for budget preparation, fiscal management of appropriations, procurement of professional services, supplies, and equipment. The section manages the systems' record center containing the member's physical records and performs other administrative functions such as legislative tracking and personnel management.

The **Retiree Payroll Section** is responsible for issuing monthly and on demand retirement benefit payments to eligible retirees or their beneficiaries. The section maintains accurate records for reporting benefit recipient tax statements and reporting and paying withheld income taxes, garnishments, and IRS levies.

PROFESSIONAL CONSULTANTS	
<p><b>Consulting Actuary</b> William M. Mercer, Incorporated <i>Seattle, Washington</i></p>	<p><b>Legal Counsel</b> John Gaguine Kathleen Strasbaugh Assistant Attorney General <i>Juneau, Alaska</i></p>
<p><b>Independent Auditors</b> KPMG Peat Marwick, LLP <i>Anchorage, Alaska</i></p>	<p><b>Legal Counsel - Retirement Boards</b> Wohlforth, Argetsinger, Johnson &amp; Brecht <i>Anchorage, Alaska</i></p>
<p><b>Benefits Consultant</b> Deloitte &amp; Touche, LLP <i>Minneapolis, Minnesota</i></p>	<p><b>Consulting Physicians</b> Kim Smith, M.D. William Cole, M.D. <i>Juneau, Alaska</i></p>
<p><b>Third Party Health Claim Administrator</b> NYLCare Health Plans Northwest <i>Seattle, Washington</i></p>	

A list of investment professional consultants for the System can be found on pages 40-41, and the Schedule of Investment Management Fees on page 48-49.

## TEACHERS' RETIREMENT BOARD



**Elizabeth Briggs-Hertz, Chair**

Term Expires: January 31, 2000

Elizabeth "Betty" Briggs Hertz arrived in Alaska in 1967. Ms. Hertz taught for 23 years in the Anchorage School District and retired in 1990. During her teaching career, she taught at West Anchorage High School and Steller Secondary School. Ms. Hertz has also held a variety of positions in the Anchorage Education Association. Since retirement, Ms. Hertz has taught English classes at the University of Alaska Anchorage and management courses at the Alaska Pacific University. She and her husband started Windemere Consultants, a management consulting business specializing in interpersonal communications and career development planning.



**Charlie Arteaga, Vice Chair**

Term Expires: January 31, 2002

Charles Arteaga has been an Alaskan resident for 29 years. He resides in Ketchikan with his wife, Judith. He received his Bachelors in Education at Arizona State University and his Masters in Counseling at the University of Oregon. He was an educator with the Ketchikan Gateway Borough School District until 1996.

Mr. Arteaga is a life long Democrat and was appointed to the Teachers' Retirement Board by Governor Tony Knowles. He is now employed in other sectors of public service and intends to remain an active Alaskan citizen.



**Dorothy Wells**

Term Expires: June 30, 1999

Dorothy Wells is a retired teacher who has lived in Alaska since 1961. All of her teaching experience in Alaska was at Eielson Air Force Base, which is now a part of the Fairbanks North Star Borough School District. Ms. Wells received her degree from the University of Minnesota in Minneapolis, and has attended graduate school at both the University of Minnesota and the University of Alaska/Fairbanks. Since retiring, she spends a lot of time attending retirement and pension board meetings. Ms. Wells is one of the teachers elected members to the Alaska State Pension Investment Board. In her spare time, she enjoys doing needlework, reading, and playing handbells. Ms. Wells was appointed to the Teachers' Retirement Board in 1979.



**Robert Salo**

Term Expires: January 31, 2001

Robert Salo first began teaching in Alaska in 1965. Before Mr. Salo retired in 1990 he spent 22 years teaching Physical Education and 3 years as Kenai Central High School's assistant principle. Mr. Salo's wife, Judith and his daughter, Holly, are teachers also. He currently resides in Kenai.

Mr. Salo has a long involvement with teaching and has served, in a leadership capacity, on many committees and boards including NEA, American Alliance of Health, National Interscholastic Association of Athletic Directors and Kenai Peninsula School Administrators Association.

**Gayle W. Harbo**

Term Expires: June 30, 2002

Gayle Harbo arrived in Alaska in 1957, married Sam Harbo in 1958, and lived in Cold Bay, Juneau and Nome before settling in Fairbanks in 1962. She graduated from North Carolina State University in Raleigh with a BS in Mathematics and earned a Master of Arts in Teaching at the University of Alaska, Fairbanks. She taught at Lathrop High School for most of her twenty-five years in the Fairbanks District and served as coordinator of the school's Advanced Placement Program and on the District's Curriculum Committee. She worked on committees which wrote the evaluation documents used by the district and served on several budget committees. Since retiring in 1993, she has enjoyed travelling with her husband and assisting him with several building projects for each of their four children. She loves her home and garden and the opportunity to take care of any or all of their six grandchildren.

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